

Nordic Oil and Gas Ltd.
Financial Statements

For the years ended December 31, 2009 and 2008

To the Shareholders of Nordic Oil and Gas Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 26, 2010

Signed "**Donald Benson**"

Chief Executive Officer

Signed "**Barry Palka**"

Interim Chief Financial Officer

To the Shareholders of Nordic Oil and Gas Ltd.:

We have audited the balance sheets of Nordic Oil and Gas Ltd. as at December 31, 2009 and 2008 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

April 26, 2010

Meyer Norris Penny LLP

Chartered Accountants

Nordic Oil and Gas Ltd.
Balance Sheets
As at December 31

| | 2009 | 2008 |
|--|-------------|-------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 162,216 | 161,172 |
| Short-term investments (Note 4) | 242,332 | 2,554,938 |
| Accounts receivable (Note 11) | 684,121 | 374,205 |
| | 1,088,669 | 3,090,315 |
| Property and equipment (Note 5) | 16,168,787 | 10,857,791 |
| Other assets (Note 6) | 100,093 | 165,185 |
| | 17,357,549 | 14,113,291 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 11) | 4,834,870 | 2,151,480 |
| Convertible debentures (Note 8) | 231,734 | 354,500 |
| Asset retirement obligation (Note 7) | 1,064,855 | 524,539 |
| Future income taxes (Note 17) | 1,771,652 | 990,045 |
| | 7,903,111 | 4,020,564 |
| Shareholders' Equity | | |
| Equity instruments (Note 9) | 11,226,700 | 11,646,010 |
| Equity portion of convertible debenture (Note 8 and 9) | 204,270 | 19,942 |
| Contributed surplus (Note 10) | 2,805,301 | 1,978,390 |
| Deficit | (4,781,833) | (3,551,615) |
| | 9,454,438 | 10,092,727 |
| | 17,357,549 | 14,113,291 |

Nature of operations and going concern (Note 1)
 Commitments (Note 12)
 Contingencies (Note 13)
 Subsequent events (Note 18)

Approved by the Directors:

Signed "**Donald Benson**" Director

Signed "**Keith Peterson**" Director

Nordic Oil and Gas Ltd.
Statements of Operations and Deficit
For the years ended December 31

| | 2009 | 2008 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Revenues | | |
| Oil and natural gas sales | 1,259,969 | 1,487,971 |
| Royalty expense | (56,162) | (307,900) |
| | 1,203,807 | 1,180,071 |
| Expenses | | |
| Depletion, amortization and accretion (Note 5 and 7) | 642,291 | 529,196 |
| Operating costs | 1,293,414 | 707,268 |
| General and administrative (Note 11) | 1,028,860 | 860,743 |
| Stock based compensation (Note 9(e)) | 115,245 | 441,695 |
| | 3,079,810 | 2,538,902 |
| Loss before the following | (1,876,003) | (1,358,831) |
| Interest and financing charges | (21,605) | (114,428) |
| Interest income | 9,175 | 77,002 |
| Gain (loss) on marketable securities (Note 4) | 8,240 | (42,428) |
| | (4,190) | (79,854) |
| Loss before income taxes | (1,880,193) | (1,438,685) |
| Future tax recovery (Note 17) | 649,975 | 442,816 |
| Loss for the year | (1,230,218) | (995,869) |
| Deficit, beginning of year | (3,551,615) | (2,555,746) |
| Deficit, end of year | (4,781,833) | (3,551,615) |
| Basic and diluted loss per share (Note 9(g)) | (0.02) | (0.02) |

Nordic Oil and Gas Ltd.
Statements of Cash Flows
For the years ended December 31

| | 2009 | 2008 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Cash flows from (used in) operating activities | | |
| Loss for the year | (1,230,218) | (995,869) |
| Items not involving cash: | | |
| Depletion, amortization and accretion | 642,291 | 529,196 |
| Interest and financing charges | 10,995 | 70,900 |
| Stock based compensation | 115,245 | 441,695 |
| Future tax recovery | (649,975) | (442,816) |
| (Gain) loss on marketable securities | (8,240) | 42,428 |
| Changes in non-cash working capital items | (154,445) | 89,439 |
| | (1,274,347) | (265,027) |
| Cash flows used in investing activities | | |
| Property and equipment acquisitions | (2,611,231) | (5,349,967) |
| Sale of investments | 2,330,021 | - |
| Purchase of investments | - | (2,316,173) |
| | (281,210) | (7,666,140) |
| Cash flows provided by financing activities | | |
| Issue of share capital – net of costs | 1,499,369 | 6,047,951 |
| Issue of convertible debentures – net of costs | 411,732 | - |
| Repayment of convertible debentures | (354,500) | - |
| | 1,556,601 | 6,047,951 |
| Increase (decrease) in cash during the year | 1,044 | (1,883,216) |
| Cash and cash equivalents, beginning of year | 161,172 | 2,044,388 |
| Cash and cash equivalents, end of year | 162,216 | 161,172 |
| Supplemental cash flow information | | |
| Interest paid | 20,607 | 33,486 |

1. Nature of Operations and Going Concern

Nordic Oil and Gas Ltd. ("the Company") is a Canadian-based oil and gas exploration and development company incorporated under the laws of Manitoba whose oil and gas properties are located in the provinces of Alberta and Saskatchewan.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

These financial statements do not give effect to adjustments that would be necessary should the Company be required to realize its assets in a manner other than in the normal course of business. The use of Canadian generally accepted accounting principles applicable to a going concern may not be appropriate because there is significant doubt about the ability of the Company to continue as a going concern. At December 31, 2009 the Company had an operating loss before income taxes of \$1,880,193 and a working capital deficit of \$3,746,201. As described in Note 12(a), the Company has an unexpended flow through obligation of \$1,928,813 to be incurred by December 31, 2010.

The Company's ability to continue as a going concern and realize the assets on the accompanying balance sheet is dependent upon the Company achieving and maintaining profitable results, receiving support from its lenders and attracting sufficient resources to explore and develop oil and natural gas properties. There is no certainty that management will be able to resolve these matters. These financial statements do not reflect the adjustments that would be necessary if the going concern assumption was not appropriate and these adjustments may be material.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within the framework of the significant accounting policies summarized below.

Property and equipment

The Company follows the Canadian Institute of Chartered Accountants' Accounting Guideline – 16 for the full cost method of accounting for oil and gas properties whereby all costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, drilling and other costs related to exploration and development activities. Proceeds from the disposal of oil and gas properties are applied against the capitalized costs of the related property provided such sale would not alter the rate of depletion by more than 20% in which case it would be charged or credited to operations of the current year.

The Company annually applies an impairment test (ceiling test) to capitalized costs, net of accumulated depletion and amortization, to ensure they do not exceed the estimated undiscounted value of future revenues from proven oil and gas reserves determined by independent engineers, based on third party quoted forward prices adjusted for transportation and quality, less estimated operating and abandonment costs, plus the lesser of cost and fair value of unproven properties. Should it be determined that impairment has occurred, the amount of the impairment is measured and recorded as the amount by which the carrying amount of the property and equipment exceeds the fair value of proved and probable reserves plus the cost, net of impairment, of unproved properties. Fair value is determined based on the present value of future cash flows, after deducting abandonment and site restoration costs, discounted at a risk free interest rate, adjusted for prevailing market conditions. Any reduction of value, as a result of the impairment test (ceiling test), will be included in depletion, amortization and accretion.

2. Significant Accounting Policies *(Continued)*

Computer and office equipment and compressor and metering stations are recorded at cost and are amortized at rates intended to amortize the cost of the assets over their estimated useful lives.

Depletion and amortization

Upon commencement of production, or abandonment of property, capitalized costs are depleted using the unit-of-production method, based on estimated gross proven oil and gas reserves determined by independent engineers. Oil and gas reserves are converted to a common unit of measure based on energy content of six thousand cubic feet of gas to one barrel of oil. Costs of undeveloped properties are not included in the costs subject to depletion. These costs are assessed periodically for impairment.

Computer and office equipment is amortized on a declining balance basis at rates ranging from 30% to 45%. Compressor and metering stations are amortized on a 4% declining balance basis.

Revenue recognition

Revenue from the sales of petroleum and natural gas are recognized when the risk and rewards of ownership pass to the purchaser, including delivery of the product, the selling price being fixed or determinable and collectability being reasonably assured. Settlement adjustments, if any, are reflected in revenue when the amounts are known. Transportation costs related to the delivery of the product are recorded as an operating expense on the date the product is transported. Interest revenue is recognized when it is earned.

Asset retirement obligation

The Company recognizes the estimated fair value of an asset retirement obligation ("ARO") in the period in which it is incurred and when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO's are initially measured at fair value and subsequently adjusted for the accretion or discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proven reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO with an offsetting amount to the related property. Actual costs incurred are charged against the ARO to the extent of the recorded liability. Any difference between the actual costs incurred and the recorded liability is recognized as a gain or loss in the period in which the costs are incurred.

Joint Activities

A substantial portion of the Company's activities are conducted jointly with related parties through joint operating agreements. These financial statements reflect only the Company's proportionate interest in such activities.

2. Significant Accounting Policies *(Continued)*

Per share amounts

The Company uses the treasury stock method to determine the dilutive effect of stock options and the other dilutive instruments. This method assumes that proceeds received from the exercise of in-the-money stock options and other instruments, are used to repurchase common shares at the average market price of the period. Basic net earnings (loss) per common share are determined by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed by giving effect to the potential dilution that would occur if stock options and other dilutive instruments were exercised.

Income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income taxes assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Stock-based compensation and other stock-based payments

Under the Company's stock option plan, options to purchase common shares may be granted to directors, officers, employees and consultants at current market prices. Stock-based compensation expense is recorded in the statement of operations and deficit for all options with a corresponding increase recorded in contributed surplus. The expense is based on the estimated fair value at the time of the grant and recognized over the vesting period of employee options and over the period that would have been recognized had the Company paid cash for consulting services. Upon exercise of the options, the amount of the consideration paid together with the amount previously recorded in contributed surplus is recorded as an increase in share capital.

Measurement uncertainty

Amounts recorded for depletion, amortization and accretion and amounts used for the ceiling test calculation and impairment of unproven properties are based on estimates of crude oil and natural gas reserves and future costs required to develop, reclaim and abandon those reserves and explore unproven properties.

The financial statements include accruals based on the terms of existing joint operating agreements. Due to varying interpretations of the definition of terms in these agreements, the accruals made by management in this regard may be significantly different from those determined by the Company's joint operating partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including, but not limited to, the expected stock price volatility.

The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity prices, and timing of future expenditures. Nordic expects reserve estimates to be revised based on the results of future drilling, activity, testing, production levels and economics of recovery on cash flow forecasts.

2. Significant Accounting Policies *(Continued)*

The Company has estimated the debt and equity components of its convertible debenture based on its best estimate of the rate for comparable instruments at the time of issue.

The classification made by the Company of capital expenditures renounced to the holders of the Company's flow-through shares is based on estimates obtained from geological information obtained and such classification may be challenged by the taxation authorities.

The operations of the Company are complex, and related tax interpretations, regulations and legislation affecting the Company are continually changing.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Cash and cash equivalents

Short-term investments with maturities of ninety days or less are considered to be cash equivalents and are recorded at cost, which approximates fair value.

Short-term investments

Short-term investments are comprised of guaranteed investment certificates and term deposits with initial terms to maturity of over ninety days.

Convertible debentures

The Company reviews the terms of its convertible debentures to determine whether there are embedded derivatives, including the embedded conversion option, that are required to be separated and accounted for as individual derivative financial instruments. In circumstances where the convertible debentures contain embedded derivatives that are to be separated from the debenture host contracts, the total proceeds received are first allocated to the fair value of the derivative financial instruments determined using the Black-Scholes model. The remaining proceeds are then allocated to the debenture host contracts, resulting in those instruments being recorded at a discount from their principal amount. This discount is accreted over the expected life of the instruments to net income using the effective interest method. Costs incurred related to the convertible debentures have been allocated to the debt and equity component on a pro rata basis.

The debenture host contracts are subsequently recorded at amortized cost at each reporting date, using the effective interest method.

On conversion, the carrying amount of the equity component and the carrying amount of the debenture component, including any accrued interest, are reclassified to common shares.

In the event that the debentures are not converted and the conversion option expires at maturity, the Company accounts for the settlement of the debentures at the redemption value, which is equal to the stated principal amount of the debentures. The debt component is derecognized, and the carrying amount of the equity component is reclassified to contributed surplus.

2. Significant Accounting Policies *(Continued)*

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company provides for the future income tax liability arising from such renouncements with a corresponding reduction of share capital at the date(s) of renunciation.

Financial instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities”.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are measured at amortized cost using the effective interest rate method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged from the prior year.

The Company has designated its financial instruments as follows:

| Financial Statement Item | Classification | Measurement |
|--|-----------------------------|--------------------|
| Cash and cash equivalents | Held-for-trading | Fair value |
| Short-term investments – marketable securities | Held-for-trading | Fair value |
| Short-term investments – GIC’s | Held-to-maturity | Amortized cost |
| Accounts receivable | Loans and receivables | Amortized cost |
| Accounts payable and accruals | Other financial liabilities | Amortized cost |
| Convertible debentures (debt component) | Other financial liabilities | Amortized cost |

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to loans and receivables, held-to-maturity financial assets and other financial liabilities are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

Comprehensive income

Comprehensive income represents the change in shareholders’ equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale. For 2009, the Company has not included a statement of comprehensive income as there were no such transactions.

3. Adoption of New Accounting Policies

On January 1, 2009, the Company adopted the following amendments to accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1506, "Accounting Changes", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures" and EIC-173, "Credit Risk and the Fair Value of Financial Assets and Liabilities".

Accounting Changes

The Accounting Standards Board ("AcSB") amended CICA Handbook Section 1506, "Accounting Changes," to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Company is no longer required to disclose the progress of its implementation of International Financial Reporting Standards ("IFRS") in the notes to the 2009 and 2010 financial statements.

Financial Instruments - Recognition and Measurement

The AcSB amended CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement," as follows:

- Allows debt securities that are not quoted in an active market to be classified as loans and receivables;
- On adoption, permits eligible debt securities currently classified as available-for-sale ("AFS") to be transferred to held-to-maturity ("HTM") or loans and receivables;
- Changes the impairment rules for HTM debt securities, whether quoted or not, from the fair value model to the incurred credit losses model;
- Requires the reversal of an impairment loss for AFS or debt securities when recovery of fair value occurs subsequently and is based on objective evidence of an event occurring after the loss; and
- Provides additional guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category.

The Company has elected not to reclassify any of its debt securities at adoption of the amended standard. There were no impairment losses recognized on AFS debt securities in previous years. As a result, the amendment requiring reversal of impairment losses for AFS debt securities has no impact on the 2009 financial statements.

Financial Instruments - Disclosures

The AcSB amended CICA Handbook Section 3862, "Financial Instruments - Disclosures," to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The additional disclosure requirements about fair value measurements are intended to provide users of the financial statements with the ability to assess the reliability of an entity's fair value measurements and have been incorporated into the Company's note disclosure for fair value of financial instruments (Note 14).

Credit Risk and the Fair Value of Financial Assets and Liabilities

This abstract provides guidance on CICA Handbook Section 3855 Financial Instruments - Recognition and Measurement and requires an entity to consider its own credit risk as well as the credit risk of the counter party when determining the fair value of financial assets and liabilities, including derivative instruments. The adoption of this guidance does not have an impact on the financial statements.

Nordic Oil and Gas Ltd.
Notes to the Financial Statements
December 31, 2009 and 2008

4. Short-Term Investments

| | 2009 | 2008 |
|--------------------------------------|-------------------|---------------------|
| Guaranteed investment certificates | \$ 216,237 | \$ 2,533,583 |
| Marketable securities, at fair value | 26,095 | 21,355 |
| | \$ 242,332 | \$ 2,554,938 |

Guaranteed investment certificates with a principal amount of \$209,985 (2008 - \$2,506,965) are from a Canadian chartered bank with effective interest rates of 1.85% (2008 – 1.50%) maturing June 2011. Interest is received on maturity.

Marketable securities represent shares in a Canadian junior oil and gas company. The Company had a realized gain of \$2,100 during the year (2008 - \$nil), and an unrealized gain of \$6,140 (unrealized loss 2008 – \$42,428).

The Company has pledged short term investments with its bank as collateral for a \$200,000 overdraft facility. This facility is payable on demand and bears interest at the bank's overdraft borrowing rate of bank prime plus 0.5%. The credit facility was not drawn upon as at December 31, 2009 and 2008.

5. Property and Equipment

| December 31, 2009 | Cost | Accumulated depletion and amortization | Net Book Value |
|--|----------------------|--|----------------------|
| Petroleum and natural gas properties and equipment | \$ 18,322,346 | \$ 3,340,943 | \$ 14,981,403 |
| Computer and office equipment | 43,637 | 20,196 | 23,441 |
| Coal gasification rights | 49,555 | - | 49,555 |
| Compressor and metering stations | 1,114,388 | - | 1,114,388 |
| | \$ 19,529,926 | \$ 3,361,139 | \$ 16,168,787 |

| December 31, 2008 | Cost | Accumulated depletion and amortization | Net Book Value |
|--|----------------------|--|----------------------|
| Petroleum and natural gas properties and equipment | \$ 12,863,934 | \$ 2,748,161 | \$ 10,115,773 |
| Computer and office equipment | 43,306 | 11,784 | 31,522 |
| Compressor and metering stations | 710,496 | - | 710,496 |
| | \$ 13,617,736 | \$ 2,759,945 | \$ 10,857,791 |

No administrative expenses have been capitalized to property and equipment in 2009 and 2008. As at December 31, 2009, costs amounting to \$5,298,720 (2008 - \$4,677,242) that were incurred on unproven properties have been excluded from costs subject to depletion. Future development costs associated with proved reserves of \$3,535,000 (2008 - \$4,467,000) have been included in costs subject to depletion. No amortization of coal gasification rights and compressor and metering stations has been recorded during the current period as these assets are not yet available for use.

The Company applied the ceiling test to its capitalized assets at December 31, 2009 and 2008 and determined that there was no impairment of costs requiring a write-down.

5. Property and Equipment (Continued)

The following table outlines the benchmark prices used in the impairment test at December 31, 2009:

| Year | AECO Natural Gas CDN\$/mmbtu | WTI Cushing Oil US\$/STB | Exchange rate US\$/CDN\$ |
|------------|------------------------------------|-----------------------------|-----------------------------|
| 2010 | 5.50 | 80.00 | 0.95 |
| 2011 | 6.20 | 83.00 | 0.95 |
| 2012 | 6.50 | 86.00 | 0.95 |
| 2013 | 7.00 | 90.00 | 0.95 |
| 2014 | 7.20 | 94.00 | 0.95 |
| Thereafter | | + 2%/year | |

All barrels of oil equivalent conversions are derived by converting natural gas to crude oil in the ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Exchange rates are expected to remain consistent from 2014 forward.

6. Other Assets

Other assets consist of the following:

| | December 31, 2009 | December 31, 2008 |
|----------------------------------|-------------------|-------------------|
| Deposits on oil & gas production | \$ 100,093 | \$ 165,185 |

7. Asset Retirement Obligation

The following table presents the continuity of the beginning and ending obligation associated with the retirement of oil and gas properties:

| | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Asset retirement obligation, beginning of year | \$ 524,539 | \$ 287,867 |
| Liabilities incurred | 520,749 | 213,630 |
| Accretion expense | 41,097 | 23,042 |
| Revisions in estimated cash flows | (21,530) | - |
| Asset retirement obligation, end of year | \$ 1,064,855 | \$ 524,539 |

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$2,085,588 (2008 - \$1,048,305). The obligation was calculated using a credit-adjusted risk free discount rate of 8% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2010 and 2024.

8. Convertible Debentures

On November 6, 2009, the Company issued convertible debentures in the amount of \$497,000 maturing on November 6, 2012 and bearing interest at an annual rate of 10%, payable annually on each anniversary of the initial date of closing. The debenture is collateralized by all the present and future property and assets of the Company. The debentures are convertible, at the option of the holder at any time, into Class A common shares of the Company at the conversion price of \$0.15. After one year, the debentures are redeemable at the option of the Company at an amount equal to 105% of the face value of the debentures, plus any accrued interest to that point. The maximum aggregate principal amount of convertible debentures authorized under the Company's Trust Indenture is \$3,000,000.

The debenture is a financial instrument that contains both a liability and equity component. The liability component and the equity component were presented separately, as determined at initial recognition. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. The conversion option was valued using the Black Scholes pricing model with the following assumptions: exercise price of \$0.15; expected volatility of 1.22; risk free rate of 1.3% and life of 3 years. The difference between the proceeds of the issued convertible debentures and the fair value of the equity component is assigned to the liability.

| | | |
|---|----|-----------|
| Total proceeds of convertible debenture | \$ | 497,000 |
| Value of equity component | | (230,547) |
| | | 266,453 |
| Financing costs of liability component | | (45,714) |
| Value of liability component | \$ | 220,739 |

Total accretion expense related to the liability component of the convertible debenture is \$9,273 (2008 - \$15,438). The carrying value of the debenture will be accreted up to its face value over the term to maturity. Amortization of the deferred debenture costs amounted to \$1,722 (2008 - \$55,462) leaving an unamortized balance of \$43,992 (2008 - \$nil).

| | 2009 | 2008 |
|-------------------------------------|------------|------------|
| Balance, beginning of year | \$ 354,500 | \$ 665,937 |
| Conversion to Class A common shares | - | (382,337) |
| Repayment of principal | (354,500) | - |
| Issuance of convertible debentures | 220,739 | - |
| Accretion expense | 9,273 | 15,438 |
| Amortization of deferred costs | 1,722 | 55,462 |
| Balance, end of year | \$ 231,734 | \$ 354,500 |

During the year, convertible debentures with a face value of \$354,500, together with accrued interest of \$16,317 as at December 31, 2008 and additional interest of \$2,856, were repaid. The debentures had matured in November 2008.

9. Equity Instruments

(a) Authorized

The authorized share capital of the Company is as follows:

an unlimited number of Class A common shares; and
an unlimited number of preferred shares.

(b) Issued

The issued share capital is as follows:

| | Year ended December 31, 2009 | | Year ended December 31, 2008 | |
|--|---------------------------------|----------------------|---------------------------------|---------------------|
| | Number of shares | Amount | Number of shares | Amount |
| Common shares | | | | |
| Balance, beginning of year | 48,140,126 | \$ 9,277,763 | 34,723,276 | \$ 6,306,336 |
| Issued as flow-through units (Note 9 (c)) | 17,251,500 | 1,524,587 | 10,046,934 | 3,651,010 |
| Issued as non-flow-through units (Note 9 (c)) | - | - | 606,750 | 151,712 |
| Stock options exercised | - | - | 287,500 | 211,325 |
| Warrants exercised | - | - | 909,666 | 479,408 |
| Share issue costs (net of future taxes in the amount of \$63,834 (2008 - \$152,114)) | - | (191,658) | - | (573,661) |
| Tax effect of flow-through shares | - | (1,508,693) | - | (1,352,727) |
| Conversion of debentures | - | - | 1,566,000 | 404,360 |
| Balance, end of year | 65,391,626 | \$ 9,101,999 | 48,140,126 | \$ 9,277,763 |
| | Number of warrants | Amount | Number of warrants | Amount |
| Warrants | | | | |
| Balance, beginning of year | 15,097,863 | \$ 2,368,247 | 10,026,843 | \$ 855,188 |
| Issued as flow-through units (Note 9 (c)) | 8,625,750 | 404,226 | 5,023,467 | 1,348,104 |
| Issued as non-flow-through units (Note 9 (c)) | - | - | 303,375 | 90,988 |
| Issued as agent warrants (Note 9 (c)) | 895,480 | 43,952 | 813,845 | 237,431 |
| Warrants exercised | - | - | (909,666) | (140,241) |
| Warrants expired | (8,957,176) | (691,724) | (160,001) | (23,223) |
| Balance, end of year | 15,661,917 | \$ 2,124,701 | 15,097,863 | \$ 2,368,247 |
| Total equity instruments | | \$ 11,226,700 | | \$11,646,010 |

9. Equity Instruments *(Continued)*

In accordance with the terms of the offerings and certain provisions of the Income Tax Act (Canada), the Company will renounce for income tax purposes, exploration expenditures of \$1,928,813 to subscribers of the flow-through common shares in the current year private placement, for which the Company will have to incur eligible expenditures by December 31, 2010.

(c) Private placements

During the year, the Company undertook the following private placements:

On August 18, 2009, the Company issued on a private placement basis, 6,388,500 units of the Company at \$0.125 per share for the gross proceeds of \$798,563. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.13. The purchase warrants expire in August 2011.

On August 31, 2009, the Company issued on a private placement basis, 1,758,000 units of the Company at \$0.125 per share for the gross proceeds of \$219,750. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.13. The purchase warrants expire in August 2011.

On November 26, 2009, the Company issued on a private placement basis 2,575,000 units of the Company at \$0.10 per share for gross proceeds of \$257,500. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.11. The purchase warrants expire in November 2011.

On December 23, 2009, the Company issued on a private placement basis, 2,930,000 units of the Company at \$0.10 per share for the gross proceeds of \$293,000. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.11. The purchase warrants expire in December 2011.

On December 31, 2009, the Company issued on a private placement basis 3,600,000 units of the Company at \$0.10 per share for gross proceeds of \$360,000. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.11. The purchase warrants expire in December 2011.

9. Equity Instruments (Continued)

The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions:

| Year ended December 31 | 2009 | 2008 |
|-------------------------|---------------|--------------|
| Risk free interest rate | 0.51% - 0.69% | 3.10 – 3.27% |
| Expected life (years) | 2 | 2 |
| Expected volatility | 95% - 101% | 91 - 100% |
| Expected dividend yield | 0% | 0% |

The Company issued warrants to certain agents as part of the current year's private placements. These warrants entitle the holder to purchase one Class A common share of the Company at \$0.11 – 0.13 per share. These warrants expire between August 2011 and December 2011. The fair value of these warrants is \$43,952 and is included in equity instruments as a component of share issue costs.

(d) Stock options

The Company has a Stock Option Plan for the issuance of Class A flow-through common shares to employees, officers, directors and other key personnel based on the approval of the Board of Directors and regulatory authorities. The total number of authorized common shares allocated to and made available to such participants under the plan shall not exceed 10% of the issued and outstanding Class A flow-through common shares at the time of the granting of the option. Options vest at the determination of the Board of Directors at the time of granting and expire after five years. The Company's stock option plan allows them to grant options with an exercise price not less than the Discounted Market Price on the date of grant as defined by the TSX Venture Exchange Inc.

(e) As at December 31, 2009 the Company has the following stock options outstanding:

| | Number of options | Option price range per share | Weighted average exercise price |
|--|----------------------|------------------------------------|---------------------------------------|
| Options outstanding, December 31, 2008 | 3,922,500 | \$0.20 – 0.60 | \$0.41 |
| Granted ⁽¹⁾ | 1,863,900 | \$0.10 – 0.13 | \$0.11 |
| Expired | (160,000) | \$0.10 – 0.40 | \$0.34 |
| Options outstanding, December 31, 2009 | 5,626,400 | \$0.10 – 0.60 | \$0.31 |

⁽¹⁾ Options granted during the year vested immediately.

Nordic Oil and Gas Ltd.
Notes to the Financial Statements
December 31, 2009 and 2008

9. Equity Instruments (Continued)

The following table summarizes information about the stock options outstanding at December 31, 2009:

| Options Outstanding | Option Price | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number of Options Currently Exercisable | Weighted Average Exercise Price of Options Currently Exercisable |
|---------------------|--------------|---------------------------------|---|---|--|
| 180,000 | 0.45 | 0.45 | 0.08 | 180,000 | 0.45 |
| 280,000 | 0.40 | 0.40 | 1.06 | 280,000 | 0.40 |
| 115,000 | 0.25 | 0.25 | 1.95 | 115,000 | 0.25 |
| 1,495,000 | 0.60 | 0.60 | 3.00 | 1,495,000 | 0.60 |
| 657,500 | 0.32 | 0.32 | 3.07 | 657,500 | 0.32 |
| 1,035,000 | 0.20 | 0.20 | 3.64 | 1,035,000 | 0.20 |
| 1,078,900 | 0.10 | 0.10 | 4.24 | 1,078,900 | 0.10 |
| 785,000 | 0.13 | 0.13 | 4.73 | 785,000 | 0.13 |
| 5,626,400 | \$ 0.31 | \$ 0.31 | - | 5,626,400 | \$ 0.31 |

As at December 31, 2008 the Company had the following stock options outstanding:

| | Number of options | Option price range per share | Weighted Average exercise price |
|--|-------------------|------------------------------|---------------------------------|
| Options outstanding, December 31, 2007 | 3,080,000 | \$0.25 – 0.60 | \$0.51 |
| Granted ⁽¹⁾ | 2,020,000 | \$0.20 – 0.32 | \$0.25 |
| Exercised | (287,500) | \$0.25 – 0.40 | \$0.34 |
| Expired | (890,000) | \$0.20 – 0.60 | \$0.39 |
| Options outstanding, December 31, 2008 | 3,922,500 | \$0.25 – 0.60 | \$0.41 |

The following table summarizes information about the stock options outstanding at December 31, 2008:

| Options Outstanding | Option Price | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number of Options Currently Exercisable | Weighted Average Exercise Price of Options Currently Exercisable |
|---------------------|--------------|---------------------------------|---|---|--|
| 150,000 | 0.40 | 0.40 | 0.12 | 150,000 | 0.40 |
| 180,000 | 0.45 | 0.45 | 1.08 | 180,000 | 0.45 |
| 280,000 | 0.40 | 0.40 | 2.06 | 280,000 | 0.40 |
| 115,000 | 0.25 | 0.25 | 2.95 | 115,000 | 0.25 |
| 1,495,000 | 0.60 | 0.60 | 4.00 | 1,495,000 | 0.60 |
| 657,500 | 0.32 | 0.32 | 4.07 | 657,500 | 0.32 |
| 1,045,000 | 0.20 | 0.20 | 4.64 | 1,045,000 | 0.20 |
| 3,922,500 | \$ 0.41 | \$ 0.41 | - | 3,922,500 | \$ 0.41 |

9. Equity Instruments (Continued)

During the year, under the fair-value-based method, \$115,245 (2008 - \$441,695) in compensation expense was recorded in the statement of operations and deficit and credited to contributed surplus for options granted to directors, officers, employees and consultants. The amount recorded as compensation expense approximates the fair value of the options granted as all options vest immediately when granted.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following assumptions:

| Year ended December 31, | 2009 | 2008 |
|-------------------------|-------------|-------------|
| Risk free interest rate | 1.8% - 2.6% | 3.4% - 3.7% |
| Expected life (years) | 5 | 5 |
| Expected volatility | 95% - 101% | 79 - 89% |
| Expected dividend yield | 0% | 0% |

(f) Dividends

Under the terms of the convertible debenture agreement (Note 8) the Company will not make any capital distributions with respect to any shares, or redeem any other debentures of the Company at any time that the Company is in arrears in payment of any principal or interest on the debentures. At December 31, 2009 the Company was not in arrears in payment of any principal or interest on the convertible debentures.

(g) Per share amounts

Per share calculations are based on the weighted average number of Class A common shares outstanding during the year of 51,157,248 (2008 – 44,038,148). For 2009 and 2008, diluted loss per share is consistent with basic loss per share as the effects of the debenture conversions and option exercises are anti-dilutive.

(h) Equity portion of convertible debenture

| | | |
|---|----|----------|
| Balance, beginning of year | \$ | 19,942 |
| Expiration of conversion options | | (19,942) |
| Equity component of newly issued debentures | | 230,547 |
| Equity component issuance costs (net of future taxes of \$13,277) | | (26,277) |
| Balance, end of year | \$ | 204,270 |

10. Contributed surplus

| | 2009 | 2008 |
|---|---------------------|---------------------|
| Balance, beginning of year | \$ 1,978,390 | \$ 1,631,847 |
| Stock based compensation (Note 9 (e)) | 115,245 | 441,695 |
| Options exercised | - | (118,375) |
| Expiration of conversion option of convertible debt | 19,942 | - |
| Warrants expired | 691,724 | 23,223 |
| Balance, end of year | \$ 2,805,301 | \$ 1,978,390 |

11. Related party transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

The Company has a joint operating agreement with Desoto Resources Limited whereby it has an 85% interest in certain assets including crown leases, gas line, oil and gas leases, and certain property and equipment. The costs for the three wells drilled under the joint operating agreement will be incurred 100% by the Company. As at December 31, 2009, the three wells representing a cost of \$1,449,721 (2008 - \$1,449,721) have been drilled. The Company, directors and officers have an interest in Desoto Resources Limited.

The Company has a joint operating agreement with Western Warner Oils Ltd. whereby it has an 80% interest in certain assets including crown leases, gas lines, oil and gas leases, and certain property and equipment. The costs for the first five wells drilled in the joint operating agreement will be incurred 100% by the Company. As at December 31, 2009 the five wells representing a cost of \$3,408,279 (2008 - \$3,408,279) have been drilled. The Company, directors and officers have an interest in Western Warner Oils Ltd.

As described above, substantially all of the Company's activities are undertaken jointly with related parties by joint operating agreement.

The Company has a services agreement established with Nordic Management Ltd. for various services. Nordic Management Ltd. receives \$13,333 per month for management services, \$1,875 per month for land-man services and \$7,500 per month for investor relations services. The contract expires November 14, 2012. The Company also paid Nordic Management Ltd. \$47,500 for corporate development services during the year. Certain of the Company's directors and officers control Nordic Management Ltd.

These transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties).

At the end of the year, the amounts due from (to) related parties are as follows:

| | 2009 | 2008 |
|--|------------|------------|
| Amounts included in accounts receivable | \$ 196,491 | \$ 42,176 |
| Amounts included in accounts payable and accrued liabilities | \$ 28,358 | \$ 152,332 |

The balances included in accounts receivable and accounts payable and accrued liabilities are non-interest bearing, payable on demand and have arisen from the sales of product and provision of services referred to above.

During the year, the Company issued on a private placement basis, 17,251,500 units of the Company at prices ranging from \$0.10 to \$0.13 per share for gross proceeds of \$1,928,813. Included in the private placements, was 400,000 units for gross proceeds of \$45,500 issued to directors and officers of the Company.

12. Commitments

In addition to commitments disclosed elsewhere in these financial statements, the Company has the following commitments:

- (a) Pursuant to the flow-through Class A common shares issued, the Company is committed to spending \$1,928,813 on qualified expenditures by December 31, 2010.
- (b) The Company has an outstanding letter of credit in the amount of \$172,000 (2008 - \$172,000).
- (c) In the normal course of operations, the Company enters into contractual agreements to drill wells on third party lands.

13. Contingencies

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated future removal and site restoration costs. Any changes in these estimates will affect future operations. Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities.

The Company has been advised by its joint venture partner in Joffre, Desoto Resources Limited ("Desoto"), that Desoto has filed a statement of claim against an independent oil and gas producer to preserve its right in petroleum and natural gas leases that the independent oil and gas producer has stated are terminated by virtue of the fact that the lands in question are not capable of production. The statement of claim seeks damages and asks the court to confirm the validity of the leases. The two and a half sections of leases in question includes one well currently awaiting tie-in and are reflected as proven reserves in the Company's reserves report completed by an independent engineering company. Desoto holds in trust an 85% portion of the interest in the leases on behalf of Nordic Oil and Gas Ltd. In May 2009, Desoto's claim was dismissed, and has been appealed by Desoto. At this time, the likelihood of the claim is not determinable.

14. Financial Risk Management

(a) Overview

The Corporation has exposure to credit risk, liquidity risk and market risk. The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables. The carrying amount of financial assets represents the maximum credit exposure.

The Company is subject to credit risk on its receivables. The Company has assessed the risk of not collecting as low as its customers are large integrated oil companies with long track records. During the year ended December 31, 2009, approximately 99% of sales were made to two large integrated oil companies.

14. Financial Risk Management *(Continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses.

As at December 31, 2009, the Company had a working capital deficit of \$3,746,201 (2008 – working capital surplus of \$584,335).

The Company manages its liquidity risk by continuously monitoring forecasted cash flows and assessing prospects for raising additional equity.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Company's income or value of financial instruments. The Company invests solely in Canadian dollars and therefore is not exposed to currency risk. The short-term investments and convertible debentures are not subject to interest rate risk, as they carry a fixed rate of interest.

(e) Fair value of financial instruments

The Company has determined the fair values of its financial instruments to be as follows:

Summary of financial instruments:

| Financial assets | Carrying value | Fair value |
|--|-----------------------|-------------------|
| Held-for-trading: | | |
| Cash and cash equivalents | \$ 162,216 | \$ 162,216 |
| Marketable securities | 26,095 | 26,095 |
| Held-to-maturity: | | |
| Guaranteed investment certificates | 216,237 | 216,237 |
| Loans and receivables: | | |
| Accounts receivable | 684,121 | 684,121 |
| Financial liabilities | | |
| Other financial liabilities: | | |
| Accounts payable and accrued liabilities | 4,834,870 | 4,834,870 |
| Convertible debentures | 231,734 | 231,734 |

There have been no changes in classification of financial instruments since December 31, 2008.

14. Financial Risk Management *(Continued)*

(e) Fair value of financial instruments *(continued)*

Fair value hierarchy

Beginning January 1, 2009, assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities.

Assets measured at fair value and classified as Level 1 include cash and marketable securities included in short term investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices).

Level 2 inputs include quoted prices for assets in markets that are considered less active. There are no assets measured at fair value classified as Level 2.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

(f) Commodity price risk management

While the Company is exposed to business risk associated with fluctuations in the prices of crude oil and natural gas, the Company does not hold financial instruments whose fair values are susceptible to variability resulting from changes in the prices of crude oil or natural gas.

15. Capital Management

The Company's objective is to maintain access to sources of capital with which to finance its operations. The Company maintains a capital structure of equity and convertible debentures.

The Company manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying investments. The Company will balance its overall capital structure through new share and convertible debt issues or by undertaking other activities as deemed appropriate in the specific circumstances.

Under the terms of the convertible debenture agreement the Company will not make any capital distributions with respect to any shares, or redeem any other debentures of the Company at any time that the Company is in arrears in payment of any principal or interest on the debentures. At December 31, 2009, the Company was not in arrears in payment of any principal or interest on convertible debentures.

The total capital as at December 31, 2009 and December 31, 2008 was calculated as follows:

| As at December 31 | 2009 | | 2008 | |
|------------------------|---------------------|----------------------------------|---------------------|----------------------------------|
| | Carrying amount | As a percentage of capital | Carrying amount | As a percentage of capital |
| Convertible debentures | \$ 231,734 | 2.4% | \$ 354,500 | 3.4% |
| Shareholders' equity | 9,454,438 | 97.6% | 10,092,727 | 96.6% |
| Total capital | \$ 9,686,172 | 100.0% | \$10,447,227 | 100.0% |

16. Indemnities and Guarantees

- (a) In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements, etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.
- (b) Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevent the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

17. Income Taxes

- (a) Significant components of the future income tax liability at December 31, 2009 and 2008 include the following:

| | 2009 | 2008 |
|---|-----------------------|---------------------|
| Short-term investments | \$ 4,434 | \$ 11,007 |
| Property and equipment and asset retirement obligations | (2,677,606) | (1,547,537) |
| Share issuance costs | 168,789 | 180,512 |
| Non-capital losses | 732,731 | 365,973 |
| | \$ (1,771,652) | \$ (990,045) |

- (b) Income tax expense differs from that which would be expected from applying the statutory Canadian federal and provincial 2009 income tax rates of 30.18% (2008 – 31.15%) to loss before income taxes as follows:

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Loss before income taxes | \$(1,880,193) | \$(1,438,685) |
| Combined federal and provincial tax rate | 30.18% | 31.15% |
| Expected income tax (recovery) | \$ (567,373) | \$ (448,133) |
| Increase (decrease) resulting from: | | |
| Tax rate change | (126,766) | (141,396) |
| Non-deductible expenses | 38,787 | 145,947 |
| Other | 5,377 | 766 |
| Provision for income taxes (recovery) | \$ (649,975) | \$ (442,816) |

- (c) At the end of the year, subject to confirmation by income tax authorities, the Company has approximately the following undeducted tax pools:

| | 2009 | 2008 |
|---|------------|------------|
| Cumulative Canadian oil and gas property expenses | \$ 720,669 | \$ 720,669 |
| Cumulative Canadian development expenses | 2,440,247 | 2,416,812 |
| Cumulative Canadian exploration expenses | 7,607 | 21,406 |
| Undepreciated capital cost | 1,613,540 | 1,209,014 |
| Non-capital loss carry-forwards | 2,824,594 | 1,410,731 |
| Undeducted share issue costs carried forward | 694,656 | 695,827 |

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

The non-capital losses carried forward are available to reduce taxable income in future years, and expire between 2026 and 2029.

18. Subsequent Events

(a) Stock Options

In January 2010, 180,000 stock options previously issued at \$0.45 expired.

(b) Private Placements

In February 2010, the Company issued on a private placement basis, 1,825,000 units of the Company at \$0.12 per share for the gross proceeds of \$219,000. Each unit consists of one Class A common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.14. The purchase warrants expire in February 2012.

In March 2010, the Company issued on a private placement basis, 2,525,000 units of the Company at \$0.10 per share for the gross proceeds of \$252,500. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$0.11. The purchase warrants expire in September 2011.

(c) Sale of Lloydminster interests

In April 2010, the Company entered into a sale agreement to sell a 50% interest in the Company's land holdings and heavy oil wells in Lloydminster, Alberta for total consideration of \$2,500,000 to Western Plains Petroleum Ltd ("Western"). The consideration is to be comprised of \$2,100,000 cash, and \$400,000 in Class A common shares of Western. These land holdings and heavy oil wells had a carrying value of approximately \$3,028,000.

19. Comparative Figures

Certain comparative figures have been reclassified to compare with the current year presentation.